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Analysis of Business Trends Plus Selected Financial Indicators

The Economy Begins to Slow

The combination of a smaller-than-anticipated rise in nonfarm payroll employment and a flattening of wage growth in August has enhanced prospects for stability in both monetary policy and short-term interest rates in the weeks ahead. This is because evidence is now beginning to accumulate which suggests that the pace of business is slowing, and in so doing will help keep inflation in check. In turn, this should alleviate pressures on the Federal Reserve to tighten monetary policy further.

To be sure, while the inflation bears may well insist that the economic expansion is still too vigorous and needs to be reined in, this argument seems premature at best, and faulty at worst. For the August employment numbers are not the only ones signaling a softer economy and diminished price pressures; such economic statistics as factory orders, chain store sales and the index of leading economic indicators have weakened, too.

More than anything else, however, it was the August employment report that prompted a re-thinking of just how strong the economy really is and just how valid inflation fears are. According to the Labor Department, the unemployment rate rose to 5.6 percent of the civilian labor force in August, up from 5.4 percent in July. This marked the second straight monthly increase in the jobless rate since it touched a 14-year low of 5.2 percent in June. What is more, although the economy generated some 219,000 additional nonfarm payroll jobs in August, or about ten percent more than the 200,000 payroll jobs created in July, this increase was slightly below general expectations—as was the fact that data for July were revised sharply downward. To be sure, while such a mixed bag of statistics hardly seems sufficient evidence of a business slowdown, a look beneath the surface is more revealing.

Employment Growth Moderates

For one thing, employment growth is undoubtedly moderating. While last month's increase in payroll employment was still a big number, it was only about two-thirds the size of the average monthly jobs gain posted during the immediately preceding three months—not to mention the fact that it was also about one-third the size of the huge 568,000 person increase in payroll employment in June. For another, all of the employment gains occurred in the service sector—where multiple jobholding is rampant—while factory employment actually eased a bit in August.

The distribution of the dip in factory jobs may also be indicative of slower domestic business activity. Although job gains remained sizable in such export-oriented industries as electrical machinery and chemicals, which continue to work off fat order backlogs (Financial Digest—August 29, 1988), employment declined in such domestically-oriented industries as textiles and furniture. What is more, when you consider that the length of the average factory workweek dipped slightly last month, it appears a good bet that industrial output flattened in August.

Such a subdued production pace augurs well for the near-term inflation outlook since it suggests that capacity-constrained growth—and subsequent price pressures—are further down the road than many had feared. Equally if not more important for the price outlook is the flattening of wage growth. Despite the repeated warnings by the bond-bashers that a wage-driven inflation spiral is imminent, one would be hard-pressed to tell it from the numbers. Average hourly earnings remained stable in August, after increasing only slightly in July; over the past year, as shown in the chart, hourly earnings have increased by just three percent—less than the

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1983-87, five-year average of 3.2 percent. As if this wasn't a plus all by itself, most of the wage increases over the past year have been offset by productivity gains, keeping unit labor costs well contained.

If the moderation of employment growth in August was the only sign of a more subdued business pace, its potential implications would undoubtedly be dismissed as insignificant by the cottage industry of market "watchers" who micro-analyze each and every tree in the forest. However, it is not. Take, for example, the latest monthly survey of purchasing agents. According to the National Association of Purchasing Management, growth of the economy appeared to soften in August. This is because new export orders and factory output—which have been powering the business expansion all year long—slowed decidedly last month. What is more, there was similar news in the area of vendor performance—a closely watched statistic at the Federal Reserve these days. Although delivery schedules remained generally tight last month, the waiting period lessened somewhat.

Nor should this survey be looked upon as an isolated event, since it tends to confirm the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/88)	189,954	+ 1,352	+ 15,204
New York City (8/31/88)	38,341	– 150	+ 1,163
Commercial Paper (8/31/88)	422,083	+ 329	+ 73,274

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/88)	296,824	– 1,369	+15,677
New York City (8/31/88)	56,367	+ 619	– 754

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/24/88)	892,708	– 4,223	+48,013
New York City (8/31/88)	175,359	+ 2,640	– 2,991

Financial Markets

	Friday 9/8/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.51%	+ .08	+ .97
180-Day Bills†	7.79	+ .03	+ 1.03
Longest Bills†	8.06	+ .03	+ .46
Recent Issues:			
8⅝s 8/31/90	8.40	+ .02	
8¼s 6/30/92	8.57	+ .02	
9¼s 8/10/98	8.93	– .05	
9⅛s 5/15/18	9.00	– .03	
Municipals:			
Bond Buyer–20 Bond Index* (9/8/88)	7.67%	– .09	– .71
Blue List Total ($ Million)	$1,213	– $ 3	–$ 317
30-Day Visible Supply ($ Million)	$1,771	+ $381	–$ 32
Total	$2,984	+ $378	–$ 349
Corporates:			
Moody's Aa Composite (9/8/88)	10.20%	– .17	– .13
30-Day Visible Supply ($ Million)	$4,778	+ $308	–$1,811
Stocks:			
*Dow-Jones Averages:			
Industrials	2,068.81	+ 14.22	–639.93
Transportation	873.81	+ 16.58	–158.72
Utilities	179.94	– .71	– 19.98
65 Stocks	776.64	+ 6.77	–170.01
N.Y.S.E. Composite Index	150.84	+ 1.18	– 29.18
N.Y.S.E. Avg. Daily Vol. for Week (000's)	136,140	+ 7,302	–54,996

*34% Taxable equivalent 11.62%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/9/88	Week Ago
Overnight	7.94%	8.13%
1 month	8.19	8.25
3 month	8.13	8.44
6 month	8.56	8.81
1 year	8.75	8.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/9/88)	Currency Per U.S. $	Week Ago
Belgium	38.73	39.32
Canada	1.2377	1.2362
France	6.2710	6.3620
Germany	1.8450	1.8660
Italy	1381.05	1390.25
Japan	133.28	136.78
Mexico	2273.00	2273.00
Netherlands	2.0370	2.1100
South Korea	720.40	722.10
Switzerland	1.5604	1.5727
Taiwan	28.80	28.78
U.K.*	1.7087	1.6720

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/9/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.4%	–3.4%

softening of a whole host of other economic statistics. These range from a sizable slump in factory orders in July, to a big drop in new home sales in the same month to a flattening of the index of leading economic indicators over the past three months. In fact, very few of the routine monthly economic statistics are signaling anything but an emerging economic slowdown, despite the dire protestations to the contrary from the inflation alarmists.

Don't Bet On A Tighter Fed Policy

Against this backdrop, the likelihood of another round of monetary firming along with higher short-term interest rates seems to be receding almost as quickly as the hours of daylight in the northern hemisphere. The Federal Reserve's repeated tightenings of the credit reins this past spring have had the intended effect of slowing the economy and muting inflation pressures. Anything more at this point would not only be a case of overkill but, with business credit demands weak, the monetary aggregates well behaved and industrial commodity and precious metals prices slumping, difficult to justify. Indeed, a month or two from now, we might even be hearing some voices suggesting that the Fed turn toward ease. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/7/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	231.225	+ 1.016	+13.693
Loans to Depository Inst.	2.844	— .498	+ 2.096
Float	1.191	+ .690	+ .346
Total Reserve Bank Credit	253.002	+ 1.128	+18.148
Treasury Deposits with Federal Reserve Banks	3.178	— .547	— .520
Currency in Circulation	237.046	+ 1.880	+18.751
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	226.814	+ 3.296	+42.932
	9/7/88		
Member Bank Reserves:			
Total Reserves Held	60.366	— .206	+ 2.715
Excess (Deficiency)	1.049	+ .067	— .145
Net Free Reserves	.438	+ .030	— .282
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (8/29/88)	782.6	+ 6.7	+ 4.8
M2 (8/29/88)	3,013.6	+ 3.7	+ 5.6
M3 (8/29/88)	3,849.1	+ 6.8	+ 6.6
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/9/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.30%	7.44%	7.53%
* Federal Agencies	7.80	7.85	7.95
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.53	8.86	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.27	8.58	8.65

‡ Finance Company Paper—Prime

5- 14 days	7.70%
15- 29 days	7.95
30- 59 days	8.13
60- 89 days	8.20
90-179 days	8.10
180-239 days	7.90
240-270 days	7.90

‡* Bankers' Acceptances

Oct.	8.07%
Nov.	8.06
Dec.	8.08
Jan.	8.20
Feb.	8.20
Mar.	8.19

‡ Industrial Paper—Prime

30- 89 days	8.10%
90-120 days	8.18

† Federal Funds Effective Rate 8.13%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,820	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,988	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.3	3.4	5.0
Change in Consumer Prices*	Jul '88	4.8%	3.6%	3.6%
Change in MH Cost of Living Index	Jul '88	7.2%	4.8%	1.2%
Change in Producer Prices*	Aug '88n	7.2%	6.0%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '88n	115,180	115,059	113,050
Unemployment as % of Civilian Labor Force †	Aug '88n	5.6%	5.4%	6.0%
Personal Income*	Jul '88	$ 4,071	$ 4,046	$ 3,779
Leading Indicators Composite Index (1967=100)†	Jul '88n	192.1	193.7r	190.9
Industrial Production Index (1977=100) †	Jul '88	137.7	136.6	130.6
Net Change in Consumer Installment Credit †	Jul '88n	$ 2.57	$ 8.05r	$ 5.63
U.S. Merchandise Trade Balance †	Jun '88	—$ 12.54	—$ 9.76	—$ 15.06
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	Jul '88	1,489	1,454	1,594
New Construction Expenditures*	Jul '88n	$ 401.0	$ 396.2r	$ 398.9
Total Business Inventories †	Jun '88	$ 733.9	$ 729.0	$ 680.5
Total Business Sales †	Jun '88	$ 490.6	$ 483.6	$ 453.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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